

Message Text

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INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

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AMEMBASSY LUXEMBOURG PRIORITY

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TAGS: ECON, OECD

SUBJECT: EDRC ANNUAL REVIEW OF BELGIUM-LUXEMBOURG

REF: OECD DOCUMENT EDR(74)18

1. SUMMARY. EDRC ANNUAL REVIEW OF BLEU IS SCHEDULED FOR JUNE 20. DOCUMENTS SENT INTERNATIONAL AIRMAIL TO BRUSSELS AND LUXEMBOURG JUNE 15. MAIN CONCLUSION FOR BELGIUM IS THAT POLICY SHOULD REMAIN RESTRICTIVE TO COUNTER STRONG INFLATIONARY PRESSURES BUT SOME SELECTIVE RELAXATION MIGHT BE APPROPRIATE TO ENCOURAGE INVESTMENT IN AREAS OF CAPACITY SHORTAGE AND TO OFFSET EXPECTED SLOWDOWN IN ECONOMIC ACTIVITY AT END OF 1974. FOR LUXEMBOURG OUTLOOK IS FOR SOME SLOWDOWN IN ACTIVITY BROUGHT ON BY WEAKER TREND IN FOREIGN DEMAND. END SUMMARY.

2. DEMAND AND GROWTH FORECASTS. SHORT TERM OUTLOOK
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REMAINS UNCERTAIN. SECRETARIAT ASSUMES RESTRICTIVE

DEMAND MANAGEMENT POLICY WILL BE MAINTAINED UNTIL
END OF YEAR, LEADING TO GRADUAL WEAKENING OF ECONOMIC
GROWTH RATE OVER NEXT FEW MONTHS. NEVERTHELESS,
GNP IN REAL TERMS COULD STILL REACH 4 PERCENT FOR
1974. MAIN COMPONENTS OF DEMAND INCLUDE SLOWER
EXPANSION IN CONSUMER SPENDING DURING 74-II,
AND WEAKER GROSS FIXED ASSET FORMATION BECAUSE OF
MARKED DROP IN DEMAND FOR RESIDENTIAL CONSTRUCTION.
PRIVATE SECTOR INVESTMENT EXPECTED TO GROW STEADILY
THROUGHOUT YEAR, WHILE GOVERNMENT INVESTMENT MAY
GROW ONLY SLIGHTLY. EXTERNAL DEMAND EXPECTED TO
WEAKEN IN RESPONSE TO LOWER LEVEL OF ECONOMIC
ACTIVITY IN TRADING PARTNERS. FOR 1975, SECRETARIAT
SEES CONTINUED SLOWDOWN IN ACTIVITY AS DEMAND MANAGE-
MENT POLICY REMAINS RESTRICTIVE. GNP GROWTH MAY
NOT EXCEED 3.5 PERCENT IN 1975, AND THIS ASSUMES
AN UPSWING IN SECOND HALF OF YEAR.

3. OUTLOOK FOR INFLATION: SECRETARIAT EXPECTS
STRONG INFLATIONARY PRESSURE TO PERSIST
THROUGHOUT 1974 AS PRICES OF MANUFACTURED PRODUCTS BE-
GIN TO REFLECT PASS THROUGH OF HIGHER ENERGY AND RAW
MATERIAL COSTS, AND ACCELERATION IN UNIT LABOR COSTS.
CONSUMER PRICE INDEX COULD RISE BY 13 PERCENT IN
1974. SECRETARIAT BELIEVES VIGOROUS MEASURES ARE
NEEDED TO CONTAIN INFLATIONARY PRESSURES AND CONSIDERS
PRESENT RESTRICTIVE STANCE TO BE APPROPRIATE. HOW-
EVER, SECRETARIAT CAUTIONS AGAINST FURTHER TIGHTENING
OF POLICY LEST THERE BE EXCESSIVE SLOWDOWN OF ECONOMIC
GROWTH AND DISCOURAGEMENT OF INVESTMENT IN BOTTLE-
NECK AREAS. BELGIUM SHOULD CONSIDER RELAXING
MONETARY POLICY ON SELECTIVE BASIS TO HELP SECTORS
STILL HANDICAPPED BY PHYSICAL BOTTLENECKS, BUT SUCH
REFLATIONARY MEASURES SHOULD BE ACCOMPANIED BY
TIGHTER BUDGETARY POLICY TO MAINTAIN CONTROL OVER

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INFLATION. SECRETARIAT ALSO SUGGESTS THAT DIRECT CONTROLS ON PRICES AND INCOMES MIGHT SUPPLEMENT TRADITIONAL DEMAND MANAGEMENT TOOLS.

4. BALANCE OF PAYMENTS. SECRETARIAT CONSIDERS BELGIAN EXTERNAL SITUATION TO BE RELATIVELY FAVORABLE IN COMPARISON WITH OTHER OECD COUNTRIES. ALTHOUGH CURRENT ACCOUNT BALANCE WILL SHOW MARKED DETERIORATION OF SOME \$L.5 BILLION IN 1974, IT WILL REMAIN CLOSE TO EQUILIBRIUM ASSUMING NO FURTHER TENDENCY TOWARD TRADE RESTRICTIONS ON PART OF MAJOR TRADING PARTNERS.

5. OUTLOOK FOR LUXEMBOURG: SECRETARIAT NOTES THAT ECONOMIC ACTIVITY IN LUXEMBOURG HAS BEEN LITTLE EFFECTED BY ENERGY CRISIS, BUT ANTICIPATES SOME SLOW-DOWN LATEIN YEAR DUE TO WEAKER TREND FOREIGN DEMAND AND DEFLATIONARY IMPACT OF OIL PRICE RISES. PRIVATE LIMITED OFFICIAL USE

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CONSUMPTION EXPECTED TO RISE BY ABOUT 8 PERCENT DUE TO WAGE INCREASES AND LARGER TRANSFERS FROM GOVERNMENT, BUT GROSS FIXED INVESTMENT MAY BECOME SIGNIFICANTLY WEAKER DUE TO RESTRICTIONS ON HOUSING LOANS INTRODUCED IN JUNE 1973. OFFICIAL FORECASTS SEE PRICES RISING 8.3 PERCENT IN 1974, BUT, IN VIEW 15 PERCENT RATE OF INCREASE IN FIRST 4 MONTHS OF YEAR, SECRETARIAT CONSIDERS THIS ESTIMATE TO BE OPTIMISTIC. SECRETARIAT SEES EXPORTS RISING AT 5 PERCENT TREND RATE AND, IN SPITE OF INCREASING HIGHER PRICES, EXPECTS CONSIDERABLE TRADE SURPLUS WILL AGAIN BE RECORDED

IN 1974.

6. MISSION WELCOMES PARTICIPATION OF JOHN P. HEIMANN,
EMBASSY, BRUSSELS, AND WARREN A. LAVOREL, EMBASSY,
LUXEMBOURG.
BROWN

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